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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 003989

SIPDIS

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [PGOV](#) [IZ](#)

SUBJECT: FUEL PRICES TO RISE COUNTRYWIDE

REF: BAGHDAD 3939

Classified By: Economic Minister Counselor Thomas Delare for reasons 1.
4 (b) and (d).

1. (C) Summary: Director General of the Oil Products Distribution Company Zuhayr Shakir said September 23 that the \$.08/gallon price rise for regular octane fuel that went into effect in Baghdad September 17 will be extended countrywide in October. Zuhayr's company is formally part of the Ministry of Oil, but there still has been no formal announcement of a change in pricing policy from the Ministry. So far, there also has been no public reaction in Baghdad to the September 17 rise. The Ministry is also quietly raising the subsidized price in Baghdad of liquid propane gas (LPG) and has introduced the option of fee-based home delivery by private distributors into the winter program for distribution of kerosene and LPG. End Summary.

Softly, Softly

2. (C) Director General of the Ministry of Oil's Distribution Company Zuhayr Shakir said September 23 that he ordered the approximate \$.07/gallon rise on regular octane gasoline, initiated September 17 in Baghdad (reftel), be extended nationally in October. As with the Baghdad increase, however, we expect no official announcements. Septel reports on the Ministry of Oil draft proposal to liberalize some fuel imports and downstream petroleum distribution.

Baghdad Non-Reaction a Good Thing

3. (SBU) Public reaction to the mid-September Baghdad price rise (reftel) has been muted, as Baghdad residents had already been paying higher prices for fuel on both the black market (\$.78-\$1.04/gallon) and at the mobile gas stations (\$.26/gallon). This non-reaction appears to have paved the way for further MO efforts on fuel prices at the pump.

Baghdad Winter Distribution Plan Another Step Forward

4. (U) Newspapers the week of September 18 announced MO plans for regulating the sale of kerosene and liquid propane gas (LPG) during the winter months, beginning in October. The program begins first in Baghdad and will be carried out through a coupon mechanism based on the Public (Food) Distribution System (PDS). Coupons are transferable. Under the plan, a Baghdad family of five members or less is entitled to purchase 7.92 gallons (30 liters) of kerosene per month at 5 ID/liter, or just over a penny per gallon. Families of six to 12 are authorized to purchase 40 liters (10.56 gallons)/month at the subsidized price; families with 12 members or more can purchase 50 liters (13.2 gallons)/month. New in 2005, consumers who request home delivery will pay roughly \$.07/gallon (1470 ID = \$1.00). Any purchases above the allotted amounts will be at the home delivery rate of \$.07/gallon.

5. (U) A family of five members or less is entitled to purchase three liquid propane gas (LPG) cylinders per month at a cost of \$.17 per cylinder, up from the current cost of \$.14 cylinder. A family with five or less members is entitled to purchase three cylinders/month at the subsidized price, while families with more than five members are entitled to purchase 5 cylinders/month. As with kerosene, a consumer can request home delivery at a higher price of roughly \$.51/cylinder. Consumers may purchase more than the allotted amount at a cost of \$1.02/cylinder.

6. (C) According to MO DG Zuhayr, the Ministry will license kerosene and LPG distributors throughout the country. These individuals are authorized to purchase at the subsidized rates (above). The home delivery rate allows the distributor a modest profit once trucking costs are factored in. (Comment: We note with concern that the MO is still regulating the profit margins of the distributors. End Comment.) Small businesses and restaurants will also pay the higher price for kerosene, according to Minister of Oil Ibrahim Bahr al-'Ulum.

17. (SBU) Comment: The economic impact of these steps will probably be virtually nil with petroleum products remaining a virtually free good, aside from the often considerable time required for queuing. However, it may be that an important psychological step has been taken as Iraqis are exposed to higher prices. DG Zuhayr, a career Ministry employee who recently transferred to his position from responsibilities in the production arm of the Ministry, strikes us thoughtful and genuinely interested in experimenting with new ways to rationalize Iraq's fuel situation.
Khalilzad